

CONNECTICUT STATE OFFICE OF EARLY CHILDHOOD
HARTFORD, CONNECTICUT
Administered State-Funded Program General Policy
15-09

X Child Day Care Contractors
X Priority School Readiness Districts (replaces GP 09-05)
X Competitive School Readiness Municipalities (replaces GP 09-05)

TO: Mayors, Superintendents, School Readiness Council Chairs/Co-Chairs and Liaisons, Child Day Care Contractors

FROM: Harriet Feldlaufer, Director
Division of Early Care and Education
Office of Early Childhood (OEC)



SUBJECT: Commitments to Connecticut Health and Educational Facilities Authority (CHEFA) Financed Tax-exempt Loans

Background

In 1997, Public Act 97-259, "*An Act Concerning School Readiness and Child Day Care*," established the child care facilities program (Connecticut General Statutes (C.G.S.) section 10a-194c) (also known as Tax-Exempt Loan Program) at CHEFA and the loan guarantee program (C.G.S. section 17b-749g) (also known as Guarantee Loan Program) and the direct revolving loan program (C.G.S. section 17b-749i) (also known as Small Direct Revolving Loan Program) at the Department of Social Services (DSS). From the three programs, DSS in partnership with CHEFA and the state's major commercial banks created the Child Care Facilities Loan Fund program (CCFLF) to provide loans at low cost to eligible child care providers for land acquisition, site development, construction or renovations. Responsibility for the CCFLF was transferred to the State Department of Education (SDE) pursuant to Public Act 11-44 and subsequently to the CT Office of Early Childhood pursuant to Public Act 14-39.

The information and guidance in this general policy pertains to Tax-Exempt Loan Program. Eligibility for the Tax-Exempt Loan program is limited to Internal Revenue Service designated 501(c)(3) non-profit child care providers, municipalities, local boards of education with the approval of the municipal legislative body, regional school districts, regional educational service centers and charter schools. **An applicant without a Connecticut Office of Early Childhood Child Day Care Contract; or School Readiness, Head Start or a State Department of Education Charter School grant may NOT be considered for the tax-exempt program.** In general, loan amounts start at \$500,000 and have a term of 30 years.

The Connecticut Health Educational Facilities Authority (CHEFA) has been designated as the program manager of CCFLF. Section 17b-749i of the C.G.S. permits SDE, via the State Treasurer, to pay "*actual debt service, comprised of principal, interest and premium*" on loans provided by CHEFA, under section 10a-194c.

The Loan Application Process

1. **Application** – Applicants must submit a **two-part application to CHEFA**. Part I, the OEC Form requests programmatic, child and family demographic information. Part II, the CHEFA data form requests agency organizational and demographic information, current and historical financial and loan specific site information. When both parts of the **application** are received, CHEFA staff review the request for completeness, loan suitability, School Readiness Council (SRC) commitment (as applicable) and project cost.
2. **Debt Service Commitment** - based on the information provided in Part I of the application and the recommendation of CHEFA, OEC determines whether and, at what percentage, the state will seek reimbursement of debt service on the proposed loan. Debt service is the amount of principal and interest payable over the life of the loan.
3. **Point of Contact** – CHEFA is the point of contact for all those seeking loans under any of the three Child Care Facilities Loan Fund programs. CHEFA's contact number is **1-800-750-1862**.

Expectations of Applicants

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Commitment Letter – all loan applicants serviced by a local or regional SRC, as defined by C.G.S. section 10-16r, must provide a commitment letter that includes the following:

1. Signatures of the mayor/elected official and superintendent.
2. Identification of the child care provider being supported.
3. Identification of the facility being supported.
4. Acknowledgement of the SRCs understanding that SDE, for the term of the loan, will intercept (see Section IV) from the local School Readiness allocation.
5. Specific identification of the minimum number of School Readiness spaces committed to the child care provider for the identified facility and that such commitment is guaranteed for the term of the loan and may not be reduced except as permitted in Section III-B of this GENERAL POLICY.
6. Attached copies of the "commitment" proposal presented at the SRC meeting and the portion of the meeting minutes confirming the SRC decision, including the final vote.

Expectations of Loan Recipients

Loan recipients are expected to ensure space utilization is in compliance with the loan provisions. Any discrepancies in space utilization should be reported to CHEFA, and any of the following entities that are applicable to the particular facility:

- School Readiness liaison
- Child Day Care Contractor
- OEC Child Day Care Program Manager.

CHEFA Loan Oversight and Space Reassignment

A loan recipient is provided certain slot guarantees as presented in Section III (1) of this GENERAL POLICY as defined in Special Act 13-16. This provision ensures that the investments made to this facility will continue to benefit the residents of the State of Connecticut. Despite this provision, non-compliance with loan provisions or default may result in the remedies set forth in the loan agreement and/or the requirement of a replacement entity to manage program operations at the loan facility.

The Child Day Care Contractor or the School Readiness Council may request approval from OEC and CHEFA to reduce or reconfigure the slot commitment for *the remaining term of the loan agreement* if the following conditions exist:

1. At least six months of space utilization issues have been documented
2. Appropriate technical assistance to correct non-compliance issues has been sought by the loan recipient and offered by the SRC, CHEFA and/or the OEC.
3. The reduction or reconfiguration of the space commitment does not reduce the funds needed by the loan recipient to repay the non-state supported debt service of the loan,

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SRCs are expected to ensure that the Liaison or designee monitors space utilization for all local contracted programs in their community and should document the following conditions in order for a SRC requested space reassignment to be considered by the OEC and CHEFA:

1. That at least six months of noncompliance can be demonstrated.
- 2..That the loan recipient has been notified successively of the non-compliance and has failed to correct the problems;
3. That appropriate technical assistance to correct non-compliance issues has been offered or provided to the loan recipient.

OTHER PERTIENT INFORMATION

Debt Service Intercept

CHEFA has been able to offer attractive interest rates on the Tax-Exempt Program by requiring the full debt service payment from the state paid directly to the Bond Issue Trustee. The partial reimbursement of the State's payment of debt service out of the borrower's operating subsidies is referred to as the "intercept."

Depending upon the OEC funding sources the facility receives, the intercept may be withheld from one of the following:

1. OEC Child Day Care Contract payments
2. OEC School Readiness Grant to communities, which then withhold the intercept from the specific facility
3. State Head Start supplement
4. Charter School funds

The timing and amount of the intercept will depend upon the loan amount and the funding source. For facility-specific information about intercepts, please contact the OEC.

For further information on this GENERAL POLICY please contact:

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School Readiness Program Manager
Office of Early Childhood
860-713-6774**

or

**Michelle Levy
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Office of Early Childhood
860-713-6756**